A WAY OUT OF THE GLOOM

By LUKE HUNT

Even as the signs point to Vietnam emerging at last from the economic doldrums, it is finding it difficult to shake its nasty reputation for corruption and win emerging-market status for its fledgling equities market.

Economic growth for this year is forecast at a credible six per cent, inflation is finally under control and stocks on Hanoi and Ho Chi Minh City's exchanges are sitting on gains of more than five per cent over the year to date.

According to the latest report by Asia Frontier Capital (AFC), a steady upward trend in equities evident since the beginning of this month has been supported by an increase in net buying by foreigners, particularly in banks, which has triggered further domestic buy orders.

"There really is a sustainable recovery happening," said Andreas Vogelsanger, Chief Executive Officer for AFC Vietnam. "But corruption still paints a very dark picture in Vietnam."

High corruption and high debt typified the final years of rapid growth in the late 2000s, culminating in unwanted financial downgrades in 2012 – and an unprecedented vote of no confidence in Prime Minister Nguyen Tan Dung. A lack of transparency and a poor track record on human rights did not help.

Dung survived the vote, but Vietnam is still paying dearly for the collapse under US$4 billion in debt of Vinashin, the national shipbuilding company and once the pride of state-owned enterprises, and the jailing of senior banking executives involved in the embezzlement of hundreds of millions of dollars.

The country is also struggling with high public debt levels despite cuts at the local government level on infrastructure spending, which had ballooned over the last four years, making it harder for the authorities to meet their debt-servicing obligations.

Government debt has reached 50 per cent of GDP, stubbornly high compared with neighbouring countries. Indonesia's debt-to-GDP ratio is 24 per cent, Bangladesh's is 29 per cent. Vietnamese economists, meanwhile, have said total national debt could reach 64 per cent of GDP by the end of 2015.

Dung addressed the issue at the Midterm Vietnam Business Forum in Hanoi earlier this month when he

A labourer at a construction site of a bridge in Hanoi. Vietnam needs to quicken the privatisation of state-owned enterprises (SOEs) as well as divestment from non-core businesses to raise capital and boost performance. – Reuters

Vietnam's economic horizon brightens, particularly with hopes of a capital influx in the equities market

promised to keep inflation under 5 per cent, curb lending and ensure that all weak banks are removed from the banking system by 2016 with the non-performing loan rate held to 3 per cent.

"The government is not satisfied and will continue focusing on its major tasks in the future," he said, with power production, free trade agreements (FTAs) and improved efficiencies within state-run enterprises topping the agenda.

Vietnam is hoping to soon finalise an FTA with the European Union and the Trans-Pacific Partnership (TPP) with 11 countries including the United States. "This is an important ground to create a favourable business environment," Dung said.

With its access to Pacific ports and land routes across Southeast Asia and into China, Vietnam would be a major winner if the TPP goes ahead, Vogelsanger said. It is one of just four ASEAN countries to have been offered membership to the trade pact – the others being Brunei, Singapore and Malaysia.

"China's been left out... and that will give Vietnam such a big advantage," Vogelsanger said. "But the big picture is [the Vietnamese] want to be classified by MSCI as an emerging market."

The TPP would give Hanoi an edge and go a long way towards ensuring an upgrade to emerging-markets status and with it a place on the MSCI Emerging Markets Index, which boasts an average capitalisation near US$565 billion, from its current place in the frontier index, which averages much less at US$30 billion.

Hanoi began its bid to convince the New York-based MSCI Inc that it was prepared to undertake the necessary economic reforms late last year. Key to this is raising permitted foreign ownership of companies to a possible 60 per cent from a current 49 per cent, a merger of the country's two stock exchanges and laws allowing foreign companies to list on the local bourse.

"They're doing it," Vogelsanger said. "The politicians really want to remove the barriers on foreign ownership levels and allow foreign companies to list in Vietnam."

The United Arab Emirates and Qatar were the last markets to gain emerging-market status and saw their listed companies opened up to a massive inflow of foreign capital.